SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Florez | Analyst: Jeani Brent | Bill Number: AB 1192

Related Bills: See Prior Analysis | Telephone: 845-3410 | Amended Date: April 21, 1999

Attorney: Pat Kusiak | Sponsor:

SUBJECT: Targeted Tax Area/Authorizes Three New Designations

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO ________________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 26, 1999, STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY OF BILL

Under the Government Code, this bill would require the Trade and Commerce Agency (TCA) to designate three additional targeted tax areas (TTA). This bill would specify that TCA could designate only communities that meet certain additional criteria.

SUMMARY OF AMENDMENT

The April 21, 1999, amendments increased the number of new TTAs from one to three and made various changes to the criteria that an area must meet for designation, as discussed below. The criteria changes resolved the policy consideration addressed in the department's analysis of the bill as introduced February 26, 1999.

In addition, the amendments removed unnecessary language that specified the TTA would not be considered an enterprise zone. This change resolved the implementation consideration addressed in the department's analysis of the bill as introduced February 26, 1999. Other than the discussion of "this bill," policy considerations, implementation considerations, and revenue estimate, the remainder of the department's prior analysis of the bill still applies.

SPECIFIC FINDINGS

This bill would require the TCA to designate three additional TTAs on or before December 1, 2000.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	__X__ PENDING

Department/Legislative Director — Date

Johnnie Lou Rosas **05/10/1999**

To qualify for designation as a TTA under this bill, a community must meet at least five of the following six criteria:

1. Be a joint powers agency created by a county having a population of less than 1 million on January 1, 1999, and a city with a population of less than 10,000 on January 1, 1999.
2. Be located in a county with a natural resource-based economy that is experiencing a decline because of layoffs or lack of employment opportunities or both for specified reasons.
3. Have a percentage enrollment rate for the federal Reduced and Free Lunch Program of greater than 50% in kindergarten through sixth grade.
4. Have an average unemployment rate greater than 7.5% in either/both 1997 and/or 1998.
5. Have a median family income not greater than $32,700.

Once the TTA is designated, businesses operating in the new TTA would qualify for all tax incentives allowed to businesses in the existing TTA. The designation would be binding for 15 years.

Implementation Considerations

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

TAX REVENUE ESTIMATE

The revenue losses from the amendments of this bill increasing the designation from one to three additional TTAs are as follows:

Estimated Revenue Impact of AB 1192 Effective After December 31, 1999 (In Millions)		
1999-0	2000-1	2001-2
Negligible *	-$0.5	-$3

* Less than $250,000

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

REVENUE ESTIMATE DISCUSSION

This estimate differs from that contained in the department's prior analysis of the bill to allow for the additional two TTAs. This estimate reflects an increase in the second fiscal year 2000-1 from minor loss (loss less than $500,000) to a loss of $500,000 and an increase in the third fiscal year 2001-02 from a loss of $1 million to a loss of $3 million. The first fiscal year 1999-0 remained the same.

Revenue losses under the Personal Income Tax Law and the Bank and Corporation Tax Law primarily would depend on the number of businesses in the TTAs that would purchase qualified property subject to the sales tax, the amount of wages paid to qualified employees, and the relevant state tax liabilities of employers claiming tax benefits.

Because the effectiveness of a new TTA is unknown and the potential exists for significant businesses to locate in such an area, the average revenue loss of $1 million per area per year has been used. It is not known what, where, or when plans or development would begin. Because this bill targets three small areas (counties with population of less than $1 million), it is anticipated that revenue losses most likely would be below the average in the first years of designation. Allowance is made in future years for businesses that might start up.